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Sugar

Annual

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Approved by:
Margaret Thursland, Agricultural Attache
U.S. Embassy, Kiev
Prepared by:
Dmitri Prikhodko, Agricultural Specialist

Report Highlights:

Ukrainian sugar beet and sugar production in 2002 are expected to increase as a result of higher domestic yields. Nevertheless, imports of raw cane sugar will still be required to meet domestic demand. It is unlikely that Ukraine will again become a net sugar exporter for the foreseeable future.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Production of beet sugar is forecast to increase slightly in 2002 based on higher than expected beet output. Increased production will result in lower imports of raw cane sugar in MY 2002/2003, but will not be sufficient to eliminate completely lower-priced imported product. The Government of Ukraine (GOU) is expected to review its policy of administrative sugar beet and refined sugar price fixing as it has not succeeded in maintaining high domestic prices throughout the marketing year. Sugar consumption in MY 2002/2003 will continue to slide downward after increases in MY 1999/2000 and 2000/2001. This anticipated decline in consumption is mainly attributable to high domestic prices. Ukraine will continue to export insignificant quantities of sugar in MY 2002/2003, most likely to Former Soviet Union (FSU) countries.

Section I. Situation and Outlook

Sugar production in 2002 is expected to increase as a result of this year's projected increase in sugar beet production. Farmers will not likely increase area planted with sugar beets in 2002 fearing low profitability. Beet output is expected to increase this year because of anticipated higher yields resulting from an unusually early sowing, better availability of seeds, mineral fertilizer and other agricultural inputs. The number of sugar refineries operating in MY 2002/2003 will decline further as the GOU will more rigidly administer distribution of the domestic supply quota to the more efficient refineries. (See Section III Production - Quota A).

Ukraine's own beet sugar production will supply an increased portion of domestic demand in MY 2002/2003. The quota for sugar produced in MY 2002/2003 for domestic consumption was decreased to 1.8 MMT from 2 MMT (refined value) in the current marketing year. While the quota for the current marketing year is expected to be fully utilized through domestic production and imports, the only reasonable explanation for the lower MY 2002/2003 quota is an attempt to decrease imports and maintain a high domestic price. Thus, the GOU intends to make sugar beet and sugar production more profitable. Total demand for sugar in MY 2002/2003 is forecasted higher than the quota set. Consequently, therefore, the quota may have to be revisited.

Ukraine could still import raw cane sugar for two reasons. The first would be due to pressure from underutilized domestic refineries which are capable of processing raw cane sugar. The second would be to satisfy demand from the confectionery industry for lower-priced sugar. While imports of raw cane sugar are expected to decline in MY 2002/2003 as compared with the current and past marketing years, it is doubtful that imports will stop completely -- as the GOU wishes. Sugar consumption is anticipated to decline in MY 2002/2003 as more higher-priced beet sugar enters the market. This follows a rise in domestic sugar consumption in both MY 1999/2000 and 2000/2001..

Ukraine resumed insignificant sugar exports to its traditional markets in the FSU this year, mostly through the sale of refined raw cane sugar. A net sugar exporter situation will not be repeated in the foreseeable future as Ukraine has not been able to meet its own domestic demand since MY 1997/1998. Exports of Ukrainian sugar in MY 2002/2003 will decrease to 30,000 MT from the revised current marketing year estimate as exports continue to face trade barriers in the region. The GOU does not currently subsidize sugar exports but could if sugar intervention purchases were introduced. This scenario is unlikely, however, as there are no funds in the CY 2002 agricultural budget to subsidize or support exports of sugar or any other agricultural commodity. To date, the GOU has not introduced a sugar export quota for MY 2002/2003.

Section II. Statistical Information

Rates of Mineral Fertilizer Application, Production and Yields of Sugar Beets

	1990	1997	1998	1999	2000	2001
Kilograms of active ingredient (NPK) applied to 1 hectare of sugar beet planted area	149	40	45	34	24	33
Production, MMT	44265	17663	15523	14064	13199	15490
Yields, MT/1 Hectare	27.6	17.6	17.4	15.6	17.7	18.2

Data source: State Statistics Committee of Ukraine

Sugar Beets PSD Table (1,000 hectares, 1,000 MT)

	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		09/2000		09/2001		09/2002
Area Planted	880	856	1000	971	0	970
Area Harvested	854	747	950	852	0	870
Production	13300	13200	16000	15490	0	16000
TOTAL SUPPLY	13300	13200	16000	15490	0	16000
Utilization for Sugar	13300	13200	16000	15490	0	16000
Utilization for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	13300	13200	16000	15490	0	16000

Centrifugal Sugar PSD Table

PSD Table						
Country	Ukraine					
Commodity	Centrifugal Sugar				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		10/2000		10/2001		10/2002
Beginning Stocks	252	277	282	256	177	196
Beet Sugar Production	1700	1687	1900	1790	0	1900
Cane Sugar Production	0	0	0	0	0	0
TOTAL Sugar Production	1700	1687	1900	1790	0	1900
Raw Imports	400	260	50	200	0	100
Refined Imp.(Raw Val)	10	140	5	50	0	30
TOTAL Imports	410	400	55	250	0	130
TOTAL SUPPLY	2362	2364	2237	2296	177	2226
Raw Exports	0	0	0	0	0	0
Refined Exp.(Raw Val)	10	8	10	50	0	20
TOTAL EXPORTS	10	8	10	50	0	20
Human Dom. Consumption	2070	2100	2050	2050	0	2000
Feed Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	2070	2100	2050	2050	0	2000
Ending Stocks	282	256	177	196	0	206
TOTAL DISTRIBUTION	2362	2364	2237	2296	0	2226

Centrifugal Sugar Import Trade Matrix

Time period	Jan.-Dec.	Units:	1 MT
Imports for:	2000		2001
U.S.	6034	U.S.	6
Others		Others	
Brazil	171844	Brazil	238134
Belarus	59052	Belarus	113675
Guatemala	25534	Cuba	35455
Cuba	20807	Salvador	24853
France	14307	Moldova	16411
Cyprus	12466	South Africa	11622
Czech Republic	4000	Czech Republic	5000
Poland	3106	Russian Federation	2483
Switzerland	376	Switzerland	1016
Russian Federation	238	Lithuania	508
Total for Others	311730		449157
Others not Listed	325		141
Grand Total	318089		449304
Total CIF value, $1,000	$68960		$121078

Data source: State Statistics Committee of Ukraine

Monthly Sugar Imports into Ukraine (HS 1701)

Month	1,000 MT	Month	1,000 MT
Oct-00	1.8	Oct-01	0.8
Nov-00	0.0	Nov-01	22.8
Dec-00	18.7	Dec-01	35.6
Jan-01	1.2	Jan-02	1.7
Feb-01	1.8	Feb-02	9.7
Mar-01	26.7		
Apr-01	26.2		
May-01	33.0		
Jun-01	25.4		
Jul-01	106.9		
Aug-01	163.5		
Sep-01	5.3		
Total Oct 00 - Sept 01	410.5	Total Oct 01 - Feb 02	70.6

Data Source: Ukragroconsult Ltd.

Centrifugal Sugar Export Trade Matrix

Time period	Jan.-Dec.	Units:	1 MT
Exports to:	2000		2001
U.S.	5	U.S.	1
Others		Others	
Turkmenistan	10833	Moldova	5208
Moldova	1914	Azerbaidzhan	1611
Estonia	75	Russian Federation	68
Germany	9	Poland	10
Georgia, Republic of	2	Israel	1
Yugoslavia	2	Greece	1
Russian Federation	1	Turkey	1
Total for Others	12836		6900
Others not Listed	1		1
Grand Total	12842		6902
Total FOB (DAF) value, $1,000	$6042		$2456

Data source: State Statistics Committee of Ukraine

Monthly Sugar Exports from Ukraine

Month	1,000 MT	Month	1,000 MT
Oct-00	4.4	Oct-01	0.0
Nov-00	3.3	Nov-01	1.7
Dec-00	0.2	Dec-01	5.1
Jan-01	0.0	Jan-02	5.8
Feb-01	0.0	Feb-02	9.6
Mar-01	0.0		
Apr-01	0.0		
May-01	0.0		
Jun-01	0.0		
Jul-01	0.0		
Aug-01	0.0		
Sep-01	0.0		
Oct 00-Sept 01	7.9	Oct 01- Feb 02	22.2

Data source: Ukragroconsult Ltd.

Centrifugal Sugar Prices Table*

Prices in	US$	per uom	1 MT
Year	2000	2001	% Change
Jan	310.58	529.90	70.61%
Feb	316.27	541.13	71.10%
Mar	301.98	556.27	84.21%
Apr	300.16	560.99	86.89%
May	388.89	686.14	76.44%
Jun	461.51	563.25	22.05%
Jul	441.34	564.74	27.96%
Aug	439.50	565.72	28.72%
Sep	426.63	560.03	31.27%
Oct	459.81	542.11	17.90%
Nov	511.41	515.68	0.84%
Dec	518.67	506.90	-2.27%

Data source: State Statistics Committee of Ukraine

* Average monthly retail refined sugar prices converted into US dollars using the National Bank of Ukraine exchange rates.

Section III. Narrative on Supply, Demand, Marketing and Policy

Production

Sugar beet production is forecast to increase in 2002 due to higher expected yields resulting from more rapid planting and improved availability of seeds and mineral fertilizers to farmers. The GOU's forecast of the area under sugar beet cultivation in 2002 is 1.015 million hectares, or 2% higher than the area planted in 2001. Post is skeptical, doubting that farmers will increase plantings over the previous year's level because of low expected returns. Sugar beet growers just barely covered production costs in 2001 when the rate of return declined to 1 percent from 7 percent in 2000. Farmers lost money growing sugar beets in 12 out of 23 Ukrainian regions in 2001. Agricultural producers are turning to sunflowers and cereals which assured much higher incomes in 2001 (68% and 42% rate of return, respectively).

Sugar beet sowing in 2002 is advanced by two to three weeks due to unusually warm weather. Seeding is expected to be completed in most of the Ukrainian regions by April 28-May 4. According to official sources, farmers already planted 510,000 hectares with sugar beets as of April 16, 2002 compared to 405,000 hectares planted by the same date last year. Producers have been supplied mostly with local varieties and hybrids due to high import duties on beet seeds.

The only possible argument behind a potential increase in 2002 sugar beet planted area would be local administrative pressure to plant so that local sugar refineries could continue to operate and thus provide rural employment and maintain social infrastructure. The GOU has given weak signals to farmers that the tariff rate quota (TRQ) for raw cane sugar will not be re-opened in MY 2002/2003, thus trying to encourage higher plantings this year. This promise alone, however, has been insufficient. The minimum procurement price for sugar beets announced by the GOU for MY 2002/2003 remained at the level of the current marketing year: UAH 165 per MT for beets with 16% sucrose content (US$31).

Domestic sugar production in MY 2002/2003 is expected to increase over the revised MY 2001/2002 level, reflecting increased beet output. Refineries are expected to fulfill the entire domestic supply quota "A." It is estimated that 147 sugar factories out of 192 existing processed beet sugar this marketing year, or almost the same number as in the 2000 beet processing season. For MY 2002/2003, 158 sugar factories requested to receive domestic supply quota. There is no market supply rationale for maintaining this domestic sugar quota whilst local production continues to falter behind domestic demand. The only explanation is that the GOU will use the quota distribution mechanism to shut down the least efficient refineries.

MY 2001/2002 beet sugar production estimates were revised downward to reflect preliminary official statistics as well as lower sucrose content reported by the National Association of Sugar Producers «Ukrtsukor». The association's estimates indicate that the average sucrose content in sugar beets decreased to 15.17% in 2001 from 15.7% in 2000. This led to a corresponding decrease in sugar recovery rate to 11.43% from 12.1% respectively.

Consumption

MY 2002/2003 sugar consumption will decrease slightly as compared to the current marketing year. Ukraine's low purchasing power coupled with the GOU's intention to enforce higher sugar prices should cause consumption to decline. The GOU will face the dilemma of either supporting domestic producers through higher domestic sugar prices at the expense of consumers, or rejecting administrative price fixing allowing prices to decline, thus supporting human and industrial sugar consumption at higher levels.

According to officially published statistics, per capita sugar consumption reached 36.5 kilograms in CY 2000 from 32.6 kilograms in CY 1999. Per capita consumption of sugar bottomed out in CY 1997 when it dropped to 30.6 kilograms. The recovery in per capita consumption in CY 1999 and CY 2000 was supported in large part by lower-priced raw cane sugar imports. There is certainly room for a further increase in sugar consumption among low-income Ukrainian consumers if prices decreased.

Imports

Imports of raw cane sugar are anticipated to decrease in MY 2002/2003 due to an expected increase in beet sugar production. Despite this decline, raw cane sugar imports will continue to flow into Ukraine as a result of an expected compromise between the GOU, certain domestic refineries and confectionery producers. MY 2002/2003 refined sugar imports are also anticipated to decline from the revised MY 2001/2002 level as a result of the recent exclusion of sugar from the free trade agreements with Moldova and Belarus.

Post decreased the estimate of raw sugar imports in MY 2000/2001 based on official trade statistics. Importers completely filled a 260,000 MT TRQ for raw cane sugar which was subject to EUR 5 per MT import duty. It is estimated that remaining imports were simply refined sugar from Belarus and Moldova (see Section II).

Revised import estimates for the current marketing year are based on available monthly trade data. Despite the absence of a TRQ for 2001/2002, importers found ways to take advantage of Ukraine's high domestic sugar prices. Previously, importers had been importing only raw sugar for further processing and re-export through the free economic zones (FEZ). However, imported refined sugar had been recently finding its way into Ukraine's FEZ. The GOU has now taken measures to ban all sugar imports through the FEZ.

Hopes remain for a MY 2001/2002 TRQ for imported cane sugar, which would support a higher import estimate. In addition to imports for domestic consumption during this marketing year, Ukraine will likely process and re-export approximately 30,000 MT of Cuban sugar which a Ukrainian company received in payment for goods sold in Cuba.

In addition to legally imported refined sugar, some Ukrainian analysts believe that up to 100,000 MT of refined sugar will be smuggled into Ukraine from neighboring countries before the close of MY 2001/2002.

Exports

MY 2002/2003 sugar exports should decline from the revised MY 2001/2002 level as high domestic prices, lower anticipated imports of raw sugar for refining, and existing trade barriers will make Ukrainian product less competitive. The revised MY 2002/2003 export estimate is based on current monthly sugar export estimates. Azerbaidzhan has been the major export destination in October 2001-February 2002. Ukraine has not supplied sugar to Turkmenistan as earlier anticipated.

There are no export subsidies or other support programs in Ukraine that would promote the export of sugar. It is unlikely that any such programs would appear in the future because of unmet domestic demand and Ukraine's obligations for WTO accession.

Prices

Challenging the market with administrative price fixing has not succeeded in Ukraine. Average monthly retail prices are provided in Section II. Domestic wholesale prices were 10-15% lower than the minimum wholesale price. Sugar often appeared in retail trade at prices lower than the minimum wholesale price (see Section III Policy). This is the major reason for declining sugar prices in MY 2001/2002. The average CIF price of imported raw cane sugar in January was $237 per MT (Brazilian sugar). The price of refined sugar from Moldova was $321 per MT.

Stocks

There is no information published on GOU-held stocks. It is anticipated that MY 2002/2003 ending stocks will slightly increase because of possible large purchases by the State Material Reserves Committee. The President of Ukraine required the Committee to purchase 100,000 MT to support prices in MY 2001/2002. Only 10,000 MT were purchased by the Committee in November 2001–January 2002 due to lack of funds. It has been estimated that the Committee may be required to purchase 300,000 MT of sugar in MY 2002/2003.

Policy

It is expected that the GOU will be required to review its administrative price fixing system for sugar in the near future. Market operators have been willing to sell sugar at lower-than-fixed prices at the risk of fines which exceed double the price of the sold product.

The GOU has considered creating an intervention fund for sugar. However, this is unlikely due to budget constraints.

One of the major policy problems undermining GOU efforts to support high prices has been the practice by refineries of reimbursing farmers and other suppliers of raw product with refined sugar as barter payment. Farmers sell the refined sugar immediately upon receipt. This competition with refineries and wholesalers forces the price of refined sugar to decline. During the current marketing year, farmers have already received 132,000 MT of sugar as payment-in-kind at the average price of UAH 1,808 per MT, or 24% lower than the minimum fixed wholesale price. An additional 20,000 MT (at UAH 1,998 per MT) were bartered as rent payments for agricultural land. Consequently, a total of 152,000 tons of sugar appeared in the domestic market at prices much lower than the minimum wholesale price of UAH 2,370 per MT.

Marketing

A major change predicted for MY 2002/2003 would be the licensing of the sugar wholesale trade. A special license would be required for sugar traders. The GOU contends that this policy will not decrease the number of traders but will strengthen the government's control over compliance with the minimum fixed price. There is fear that licensing may actually be used to decrease competition in the market.